

CREATING VALUE THROUGH THE MIDSTREAM CHAIN

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ALTAGAS SERVICES INC.

ANNUAL REPORT 1999

AR71

CORPORATE PROFILE

AltaGas Services Inc. is Canada's leading independent natural gas midstream company. Our business is to move producers' natural gas from the wellhead to end-use markets.

AltaGas has grown rapidly and today has a significant network of natural gas assets that provide customers in western Canada with efficient, cost-effective delivery of natural gas through the natural gas delivery chain. While our primary business is gathering and processing natural gas, AltaGas is a recognized provider of substantially all midstream functions, including extraction of natural gas liquids, natural gas and natural gas liquids marketing and natural gas transmission and distribution. AltaGas does not compete with producers in exploration and production but focuses on open access, customer-driven infrastructure developments to support producers' gas production and delivery.

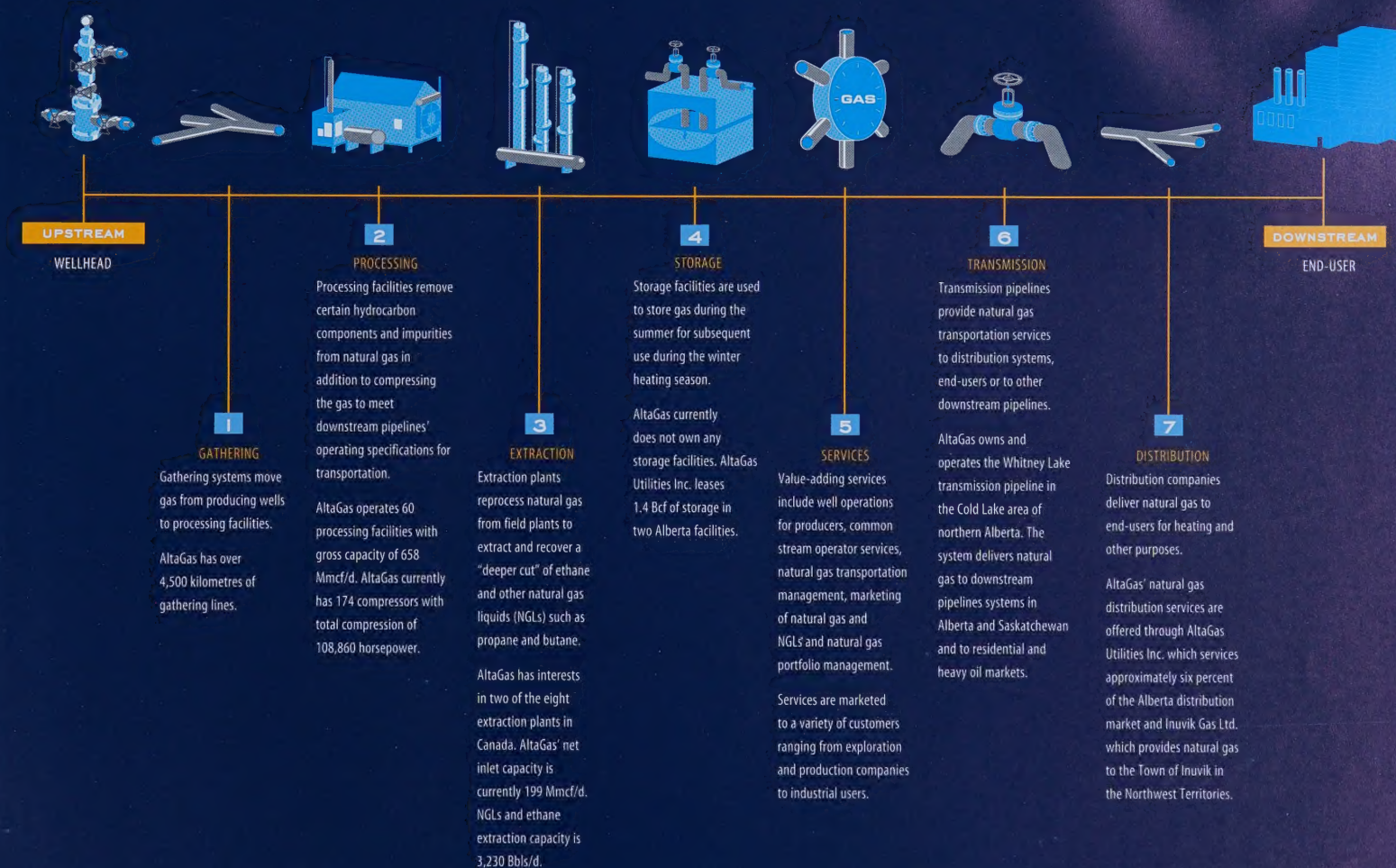
AltaGas became a public company in 1999. Our common shares trade on the Toronto Stock Exchange under the symbol "ALA".

Information about AltaGas is available on the Internet at www.altagas.ca

ANNUAL MEETING

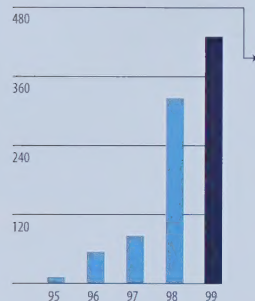
The annual meeting of the shareholders of AltaGas Services Inc. is on Thursday, May 4, 2000 at 3:00 p.m. at the Metropolitan Centre, 333 - 4th Avenue S.W., Calgary, Alberta.

MIDSTREAM VALUE CHAIN

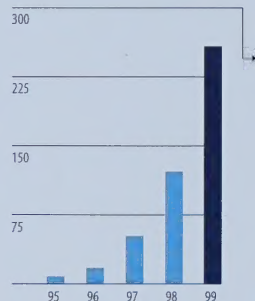


FINANCIAL HIGHLIGHTS

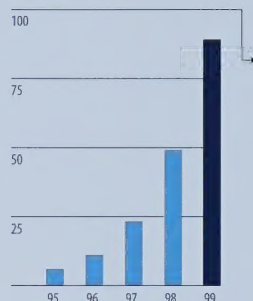
TOTAL ASSETS
(\$ millions)



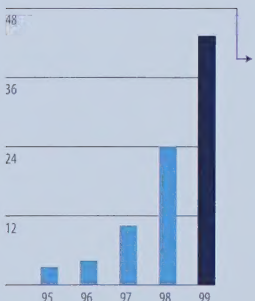
REVENUE
(\$ millions)



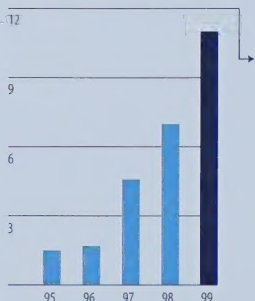
NET REVENUE
(\$ millions)



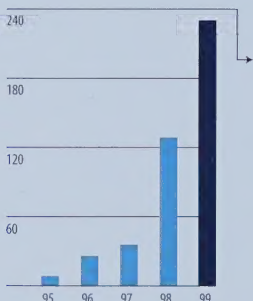
EBITDA
(\$ millions)



NET INCOME
(\$ millions)



SHAREHOLDERS' EQUITY
(\$ millions)



ACCOMPLISHMENTS AND HIGHLIGHTS

During 1999, we enhanced our leadership position in the midstream industry with the following accomplishments:

Increased gross gathering and processing capacity to 658 from 494 million cubic feet per day or 33 percent

Increased gross average gathering and processing throughput to 371 from 276 million cubic feet per day or 34 percent

Increased the number of processing facilities to 60 from 47 or 28 percent

Increased gathering lines to 4,521 from 3,410 kilometres or 33 percent

Increased the number of compressors to 174 from 143 or 22 percent

Increased producing wells operated to 669 from 525 or 27 percent

Increased the number of producing wells tied to AltaGas systems to 1,008 from 769 or 31 percent

Increased extraction inlet capacity to 199 from 155 million cubic feet per day or 28 percent

Increased NGLs and ethane extraction capacity to 3,230 from 1,796 barrels per day or 80 percent

Increased NGLs and ethane extraction average production to 2,198 from 956 barrels per day or 130 percent

Increased volumes marketed to 157 from 90 million cubic feet per day or 74 percent

AltaGas Utilities Inc. was awarded the franchise rights to two new natural gas distribution systems in Alberta

Began trading on the TSE on January 17, 2000

Formed a strategic alliance with Enbridge Inc.

Received \$90.4 million through the issuance of equity

Increased bank credit facilities to \$250 million from \$180 million

Reaffirmed our BBB credit rating with Canadian rating agencies

FINANCIAL HIGHLIGHTS

| (\$ millions except per share amounts) | 1999 | 1998 | % Change |
|---|-------|-------|----------|
| Revenue | 257.8 | 122.1 | 111 |
| Net revenue | 89.1 | 49.2 | 81 |
| EBITDA* | 43.3 | 24.2 | 79 |
| EBITDA per share (basic) | 1.64 | 1.32 | 24 |
| EBITDA per share (fully diluted) | 1.30 | 1.01 | 29 |
| Net income | 11.0 | 7.0 | 56 |
| Net income per share (basic) | 0.42 | 0.38 | 11 |
| Net income per share (fully diluted) | 0.34 | 0.29 | 17 |
| Funds generated from operations | 29.0 | 15.7 | 85 |
| Funds generated from operations per share (basic) | 1.10 | 0.85 | 29 |
| Funds generated from operations per share (fully diluted) | 0.88 | 0.65 | 35 |
| Total assets | 429.2 | 322.9 | 33 |
| Shareholders' equity | 230.1 | 128.8 | 79 |
| Total debt | 151.9 | 160.3 | (5) |
| Weighted average shares outstanding (millions) | | | |
| Basic | 26.4 | 18.4 | 43 |
| Fully diluted | 34.3 | 24.3 | 41 |
| Total shares outstanding (millions) | 37.8 | 18.9 | 100 |
| Key ratios | | | |
| Interest coverage (times) | 3 | 3 | |
| Debt (% of total capitalization) | 40 | 55 | |
| Return on equity (average %) | 7 | 9 | |
| Return on capital (average %) | 8 | 9 | |

* Earnings before interest, taxes, depreciation and amortization

OUR STRATEGY FOR ADDING VALUE

AltaGas provides a chain of services to move gas from the wellhead to end-use markets. We own natural gas facilities including gathering lines, compressors, processing equipment and transmission and distribution pipelines that process raw gas to meet sales gas specifications.

Our primary focus is on the efficient operation of our gathering and processing assets, however, we also provide the full complement of value-adding assets and services which complete the midstream value chain. Value-adding services include natural gas and natural gas liquids marketing, third party facility operations, management of gas supply and transportation capacity and natural gas transmission and distribution services. AltaGas provides these midstream services on a “bundled” or “unbundled” basis, depending on the needs of the client. Each service provides incremental revenues for AltaGas as we move the gas through the natural gas delivery chain.

Historically in Canada, gathering and processing assets were owned by exploration and production companies to support their own production activities. This resulted in gas plant proliferation and inefficient utilization of capital, which has created the opportunity for non-producer owner/operators, or midstream companies, to offer producers lower cost, open access to midstream-owned facilities.

AltaGas’ success is based on an acquisition and development strategy that has enabled us to become a significant player in the Canadian midstream industry. Our strategy is focused on growth through investments in smaller, movable, underutilized gathering and processing facility assets in areas with significant development potential. We enhance the value of the assets by increasing the utilization of the facilities through:

- aggressively pursuing new natural gas supplies by working closely with producers to develop new and existing fields;
- enhancing operational efficiencies through consolidation and plant upgrades;
- expanding facilities and acquiring and connecting complementary facilities to create large facility complexes; and
- offering the service components of the midstream value chain to create options and opportunities for our customers.

This strategy has served us well. Our diversified portfolio of assets provides us with a stable source of cash flow, financing capacity and internally generated growth opportunities.

AltaGas’ Central Border area illustrates the application of our strategy. In 1996 AltaGas acquired the four million cubic feet per day Acadia Valley gas plant and gathering facilities. We then expanded the plant’s processing capacity to 12 million cubic feet per day. In 1997, AltaGas acquired three natural gas plants and associated gathering systems in the area and connected all of the facilities to create a regional facility complex with processing capacity of 35 million cubic feet per day. During 1998, in response to continued development by producers in the area, AltaGas added three plants, two compressor stations and 58 kilometres of gathering lines. At December 31, 1998 processing capacity of the Central Border facilities complex was 58 million cubic feet per day. During the fourth quarter of 1998 gross throughput averaged 42 million cubic feet per day which represented 72 percent utilization.

During 1999, to meet producers’ demands for additional processing capacity from well tie-in activity anticipated in late 1999 and early 2000, AltaGas expanded two existing processing facilities, acquired and constructed four other facilities and 146 kilometres of gathering lines. At December 31, 1999 Central Border had gross processing capacity of 84 million cubic feet per day. During the fourth quarter of 1999 gross throughput averaged 51 million cubic feet per day which represented 61 percent utilization. Utilization will rise again as tie-ins come onstream in 2000.

Central Border also provides significant value-adding services opportunities for AltaGas. Currently we conduct well operations, common stream operator services and gas supply management services. We also market natural gas on behalf of several producers. Our customer base in this area is diverse, ranging from the largest producers to single person operations. Producers in the Central Border area continue to be very active and AltaGas expects its facilities and services opportunities to continue to grow.

By year end 1999 AltaGas' total investment in Central Border was approximately \$37.3 million and the facility complex was the largest contributor to AltaGas' Gathering, Processing and Services net revenues.

AltaGas currently has nine facility complexes with processing capacity of 30 or more million cubic feet per day. Five of these complexes have been developed in the same manner as Central Border. Creating a critical mass in an operating area allows us to increase efficiencies. At facility complexes like the Central Border area, AltaGas can divert natural gas flow to provide delivery options on different downstream pipeline systems and to minimize the impact of maintenance shutdowns on throughput.



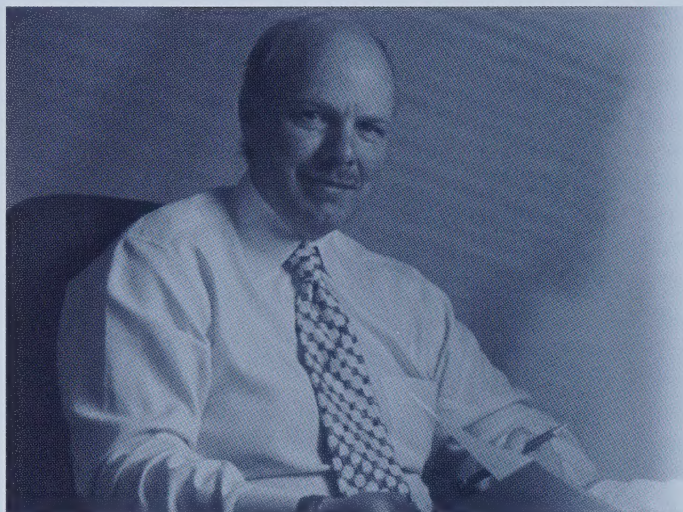
PRESIDENT'S MESSAGE

AltaGas' history is an unbroken chain of success linked by a unique business strategy and the entrepreneurial spirit of our people. In 1999 we delivered another year of solid performance and continued as the frontrunner in the Canadian midstream natural gas industry.

Operationally, milestones were achieved in all components of our business. As a result we generated record financial results with revenues of \$257.8 million, earnings before interest, taxes, depreciation and amortization (EBITDA) of \$43.3 million and net income of \$11.0 million. On a fully diluted basis, EBITDA per share was \$1.30 and net income per share was \$0.34 for the year.

The Canadian natural gas industry is strong. Demand for natural gas is on an upward trend and natural gas prices are expected to be robust. Natural gas drilling activity is expected to continue at an accelerated pace with record gas well completions anticipated for 2000. All of this points to strong demand for the services AltaGas provides as producers increasingly look to forging relationships with midstream service providers.

Our industry continues to evolve. While we believe the opportunities for midstream companies have never been better, several of our peers have announced they are looking for strategic alternatives to dispose of assets or are exiting the business entirely. What distinguishes us from our competitors and has accelerated our growth? When we entered the business in 1994, we established a unique growth strategy – to invest in smaller, movable, underutilized natural gas midstream facilities assets in areas with potential for development. We then increased utilization and expanded the facilities. As throughput



David W. Cornhill,
President and Chief
Executive Officer

volumes increased, we created facility complexes – an interconnected network of processing facilities and pipelines that allows us to provide alternative delivery options to producers from a geographic area. We also linked other components of AltaGas' midstream business to enhance the overall value of the assets. We have stayed the course with this strategy and it has served us well. Today we have a large, diversified, long life asset base which provides a dependable source of cash flow, financing capacity and significant internal growth potential.

Our 1999 net capital expenditures in the Gathering, Processing and Services segment was \$104.8 million, which was

comparable to net capital expenditures for the segment in 1998. Capital investment opportunities in 1999 included both the acquisition of facilities and internal expansions through the construction of new facilities and tie-ins of new wells to our systems. After a slow start to the year, due to low commodity prices and a very wet spring, producers sharply increased drilling and well tie-in activity late in the second half of 1999. In part, this was a response to stronger natural gas prices. Of the 192 producing wells tied-in to AltaGas' systems during 1999, 79 wells were tied-in during the fourth quarter. Revenues from these tie-ins will be fully reflected in 2000.

WE ENTER 2000 IN AN
ENVIABLE POSITION.

WE HAVE:

TREMENDOUS COMPETITIVE
ADVANTAGES

FINANCIAL FLEXIBILITY

CAPITAL RESOURCES

SIGNIFICANT GROWTH
CAPABILITIES

A TALENTED AND
DEDICATED STAFF

In May, we forged a strong link with Enbridge Inc., a North American leader in energy transportation, distribution and services. The alliance included a significant capital investment by Enbridge in our company. This new relationship has brought us financial capability and status greater than we have had in the past. We now have the financial capability to grow our asset base by 50 percent without the need for additional equity. We will continue to focus on smaller facilities acquisitions but, with increased financial strength, the barriers to capturing larger acquisitions have been reduced. Currently a substantial number of excellent midstream acquisition opportunities exist which we believe will result in both downward pressure on facilities prices and economical investment opportunities for AltaGas.

An important step to broadening our investor base, expanding our financing sources and satisfying our objective of providing long-term liquidity to our shareholders was accomplished in July 1999 when we listed our shares on the Alberta Stock Exchange (now the Canadian Venture Exchange). In January 2000 we moved to the Toronto Stock Exchange and now trade there under the symbol ALA.

We added many talented individuals to our employee and management team during the year, including the appointment of Fong Wan as Senior Vice President and Chief Operating Officer. Fong brings extensive North American oil, gas and electrical expertise to the Company. We believe our team has never been stronger.

We were also fortunate to add four extremely well-qualified outside directors to our Board. John Breen and Lloyd Swift were elected to the Board at the annual meeting held on May 27, 1999. On July 16, 1999 Richard Bird and Bonnie DuPont were appointed as Enbridge representatives. We will lose an original Board member when, at the annual meeting on May 4, 2000, Scott Sarjeant will not stand for re-election. We thank Scott for his many and valued contributions to the Board.

While we are pleased with our 1999 results, we believe there is still more to be done to provide shareholders with superior rates of return on equity and strong earnings per share performance. The strategic initiatives begun during the year provide a foundation for growth in 2000 and beyond. The challenge for AltaGas today is to translate these initiatives into shareholder value. We enter 2000 in an enviable position. We have tremendous competitive advantages, financial flexibility, capital resources, internal growth capabilities and a talented and dedicated staff. We have a clear vision for growth and remain committed to producing strong results through a disciplined approach to managing our business.



David W. Cornhill

President and Chief Executive Officer

March 17, 2000

REVIEW OF OPERATIONS

AltaGas' business is divided into two segments: Gathering, Processing and Services and Natural Gas Distribution. The Gathering, Processing and Services segment includes our natural gas gathering and processing facilities, which are AltaGas' primary focus for growth. This segment also encompasses AltaGas' extraction plant interests, transmission operations and our value-adding services business. The Natural Gas Distribution segment includes our distribution assets in Alberta and the Northwest Territories.

GATHERING, PROCESSING AND SERVICES

At December 31, 1999 AltaGas had interests in 60 gathering and processing facilities in 21 operating areas located in Alberta, Saskatchewan and the Northwest Territories. These facilities have total gross natural gas processing capacity of 658 million cubic feet per day including 132 million cubic feet per day of sour gas capacity and approximately 2,660 barrels per day of NGLs recovery capability. We have over 4,500 kilometres of gathering lines, connected to six different downstream pipeline systems. AltaGas' Gathering, Processing and Services assets also include our Whitney Lake transmission pipeline and interests in two of the eight largest natural gas liquids extraction plants in Canada. AltaGas' share of extraction capacity at these plants is 2,034 barrels per day of natural gas liquids and 1,196 barrels per day of ethane. Our value-adding services include marketing, transportation and facility operations.

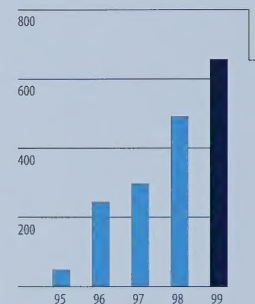
GATHERING AND PROCESSING FACILITIES

In 1999 we continued to grow and diversify our gathering and processing asset base through a series of facility acquisitions and expansions. During the year we added six new geographic areas to our portfolio. All of these acquisitions included dedicated lands and production as part of the gathering and processing contractual arrangements. In March, we acquired interests in a natural gas plant with gross processing capacity of 17 million cubic feet per day, 20 kilometres of gathering lines, an oil treating facility and an oil gathering system, all in the Ante Creek area northwest of Edmonton, for \$9.1 million. AltaGas acquired and expanded a natural gas processing facility in the Manola area of Alberta for a total cost of \$5.2 million. This facility has processing capacity of 10 million cubic feet per day.

In June, three new areas were established with AltaGas' acquisition of three natural gas processing facilities in northwest and central Alberta for \$17.4 million. These facilities, Kitto Lake, Mikwan and Windfall, have a total processing capacity of 49 million cubic feet per day. Utilization of the combined facilities was 51 percent based on fourth quarter average throughput.

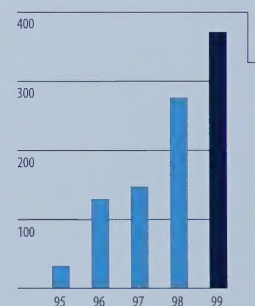
During the second quarter the gathering, processing and transportation facilities for the Ikhil gas project to service the Town of Inuvik and the Northwest Territories Power Corporation (NWTTC) were completed. Gas deliveries to the NWTTC commenced in early August 1999. A 15 year take-or-pay contract with minimum monthly volumes is in place for the sale of natural gas to the NWTTC. AltaGas invested approximately \$13.5 million for its one-third interest in the facilities and is the operator.

GATHERING AND PROCESSING
FACILITIES CAPACITY
(GROSS) (Mmcfd)*



*As at December 31

GATHERING AND PROCESSING
FACILITIES THROUGHPUT
(GROSS) (Mmcfd)*



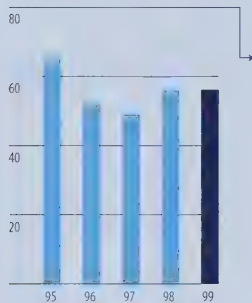
*Fourth quarter average

OPERATIONAL AREAS AND FACILITIES

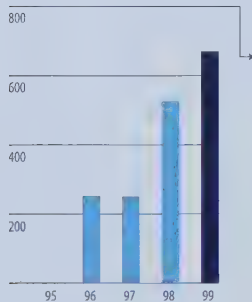
AltaGas has significantly increased market coverage through an aggressive strategy of acquisition and development, and has built a commanding position in the midstream industry.



GATHERING AND PROCESSING
FACILITIES UTILIZATION
(GROSS) (%)



PRODUCING WELLS OPERATED
(* of wells)*



* As at December 31

During the year capacity was added at four existing operating areas. Capacity additions are achieved through acquisition or construction of new facilities or by expansions at existing facilities. In February 1999, AltaGas acquired a four million cubic feet per day natural gas processing facility and associated gathering lines in the Bonnie Glen area. To accommodate increased gas flows from shut-in wells and potential near term drilling, three expansions were completed in the latter half of the year which added 19 million cubic feet per day of gross processing capacity. At December 31, 1999 total processing capacity at Bonnie Glen was 56 million cubic feet per day, with fourth quarter average throughput of 34 million cubic feet per day.

In March, AltaGas completed construction of a second Namaka facility, adding seven million cubic feet per day to bring total gross processing capacity to 13 million cubic feet per day. Contractual arrangements at this facility provide for minimum volume commitments.

In our Central Border area we invested approximately \$13.7 million during the year to add 26 million cubic feet per day of processing capacity through the acquisition and construction of four processing facilities and the expansion of two facilities. During December 1999, we acquired 85 kilometres of gathering lines near Kindersley, Saskatchewan for \$3.0 million.

In June we completed an expansion of our Alder Flats facility that added 12 million cubic feet per day of gross processing capacity. In September, field sweetening facilities were installed in this area to provide sour natural gas processing capability. In two separate transactions in August and December, AltaGas acquired a 100 percent interest in the Pearson Pembina sweet natural gas facilities situated in Central Alberta for \$6.8 million. These facilities, operated as part of the Alder Flats operating area, include 12 million cubic feet per day of gross processing capacity and approximately nine kilometres of gathering lines. At the end of December 1999, the Alder Flats area had total gross processing capacity of 52 million cubic feet per day and a corresponding utilization rate of 78 percent based on fourth quarter average throughput.

AltaGas creates value by primarily acquiring underutilized assets that can be integrated with existing facilities and then actively rationalizing them through consolidation. With rationalization, capacity in an area may be reduced but AltaGas is able to decrease the area's operating costs and achieve better utilization from the Company's total asset pool. Equipment, primarily compressors, that is removed is redeployed to other AltaGas areas as required. During the year AltaGas rationalized assets in its Central Border, Cold Lake, Thornbury, Winefred and Birch Wavy areas. AltaGas' focus on acquiring skid-mounted facilities as part of any acquisition enables the Company to conduct equipment rationalization activities on a cost-effective basis and significantly reduce capital investment.

AltaGas' profitability depends on volumes processed. Growth in throughput is achieved through the tie-in of new gas wells to existing facilities and the expansion of existing facilities where gas production potential exists but gas is not flowing due to capacity restraints. During 1999 AltaGas tied-in 192 wells, which represents a 71 percent increase over the 112 wells tied-in during the previous year. Primarily as a result of this activity, fourth quarter 1999 throughput averaged 371 million cubic feet per day, up from 276 million cubic feet per day for the same period in 1998. We exited the year with throughput of 375 million cubic feet per day compared to an exit rate of 279 million cubic feet per day in 1998.

Based on fourth quarter average throughput, 1999 total utilization at AltaGas facilities averaged 56 percent, with two areas operating with utilization above 70 percent and 11 areas with utilization between 50 and 70 percent.

EXTRACTION

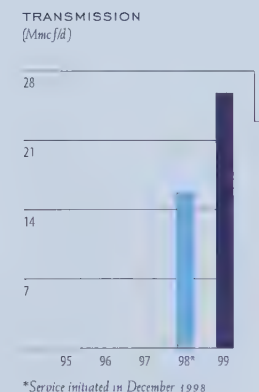
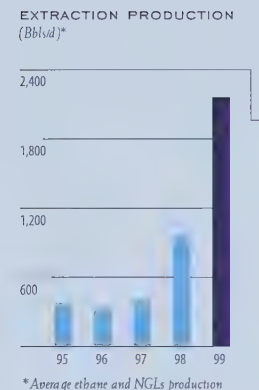
AltaGas' interests in extraction plants provide stable, cost-of-service revenues and the opportunity to share in the downstream sale of natural gas liquids. During 1999, an expansion was completed at the Wolcott-operated Empress extraction plant, increasing AltaGas' ownership in the facility to an average of 7.2 percent and its share of inlet capacity to 79 million cubic feet per day from 35 million cubic feet per day. Net cost to AltaGas was \$2.5 million. The construction phase of the expansion was essentially completed at the end of March 1999, however, start-up problems delayed AltaGas from processing volumes

through the expanded plant until December 1999. At December 31, 1999 AltaGas' net NGLs and ethane production capability was 1,070 barrels per day at this facility. NGLs and ethane production averaged 578 barrels per day in 1999, compared to 386 barrels per day in 1998.

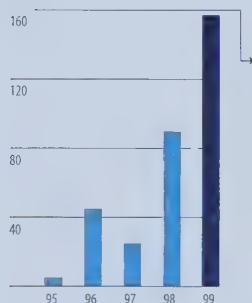
AltaGas has a 10 percent interest in the PanCanadian-operated Empress extraction plant. The PanCanadian-operated extraction plant functioned well throughout 1999, including the ethane recovery unit installed in the first quarter at a net cost to AltaGas of \$1.8 million. Net ethane recovery capability at the plant is 960 barrels per day and NGL extraction capability is 1,200 barrels per day. During 1999, NGL and ethane production averaged 1,620 barrels per day, compared to 570 barrels per day in 1998.

TRANSMISSION

Transmission pipeline services represent a new growth opportunity for AltaGas. Transmission pipelines create footholds in new areas and market opportunities for exploration and production companies. AltaGas owns the Whitney Lake transmission pipeline in northeastern Alberta adjacent to our Cold Lake operating area. This integrated pipeline system became operational following construction of 18 kilometres of eight-inch transmission pipeline in 1999 which connected it to the Company's existing Frog Lake and Moosehills pipelines. The connection allowed AltaGas to gain access to over 200 sections of undeveloped natural gas properties, significantly enhancing our gathering and processing opportunity in the area. In addition, the Whitney Lake pipeline has provided our services team with

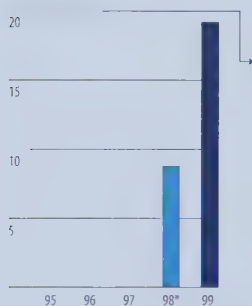


GAS VOLUMES MARKETING (Mmcfd)*



* As at December 31

NATURAL GAS DISTRIBUTED (Bcf)



* Represents six months ownership of AltaGas Utilities

marketing and exchange opportunities as the pipeline is connected to two major downstream pipeline systems that allow AltaGas' customers to access Alberta and Saskatchewan markets. The Whitney Lake transmission pipeline has capacity of 45 million cubic feet per day and had average throughput of 25.8 million cubic feet per day during the fourth quarter of 1999.

SERVICES

Our value-adding services continued to expand during the year. Volumes marketed at December 31, 1999 increased by 74 percent to 157 million cubic feet per day, compared to volumes marketed of 90 million cubic feet per day at the end of 1998. The increase in volumes marketed was a result of growth at existing AltaGas' gathering and processing facilities and from new marketing activities including gas exchanges on the Whitney Lake transmission line. At December 31, 1999 AltaGas operated 669 of the 1,008 producing wells tied-in to our gathering systems, compared to operating 525 of the 769 producing wells tied-in at December 31, 1998.

During 1999, AltaGas assumed responsibility for the gas supply operations and gas supply management functions of AltaGas Utilities Inc., our wholly owned subsidiary, on a fee-for-service basis. AltaGas also manages approximately 13 billion cubic feet of gas annually for AltaGas Utilities.

AltaGas also signed a Gas Services Agreement with Enbridge in 1999 which makes AltaGas Enbridge's exclusive gas services manager and agent for gas supply aggregation, gas control, gas supply marketing and transportation mitigation with respect to Enbridge's Alliance Pipeline capacity. These services will be provided on a fee-for-service basis commencing October 1, 2000.

NATURAL GAS DISTRIBUTION

Natural Gas Distribution operations relate to our 100 percent ownership of AltaGas Utilities Inc. and our one-third interest in Inuvik Gas Ltd., a company that distributes natural gas to the Town of Inuvik in the Northwest Territories. Natural gas distribution companies provide natural gas to residential, farm, commercial and industrial users for heating and other purposes.

ALTAGAS UTILITIES INC.

AltaGas entered the natural gas distribution business through its purchase of AltaGas Utilities Inc. (formerly Centra Gas Alberta Inc.) on June 30, 1998. This provincially-regulated subsidiary distributes natural gas to approximately six percent of the Alberta natural gas distribution market through its approximately 20,000 kilometres of pipeline. AltaGas Utilities serves over 55,600 residential, farm and small commercial customers in more than 90 communities and surrounding rural areas throughout Alberta.

Opportunities for AltaGas Utilities to grow come from activity in existing franchise areas through extensions into new subdivisions and achieving higher levels of saturation within existing subdivisions, acquiring the right to service customers in new franchise areas, and acquiring existing franchises from other distributors. AltaGas Utilities currently holds 68 municipal and rural franchise agreements with terms ranging from five to 20 years, with an average remaining term of six years. During 1999 AltaGas Utilities experienced normal new customer growth of one percent, with services being provided to 21 new subdivisions, adding 913 services.

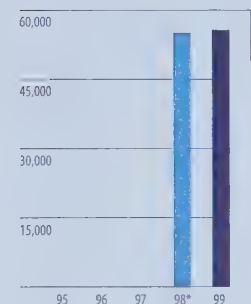
Two new franchises were added in northeastern Alberta in 1999. Construction of these franchises, which added approximately 300 kilometres to our distribution system, was completed in late 1999 and will service approximately 490 premises in early 2000.

INUUVIK GAS

AltaGas' Natural Gas Distribution segment also includes its interest in Inuvik Gas Ltd., the distribution arm of the Ikhil Gas Project. Inuvik Gas commenced gas deliveries to the first residential and commercial customers in the Town of Inuvik in early August. At year end 1999, 111 of the 769 buildings in Inuvik were being heated with natural gas. The estimated average annual demand for natural gas in Inuvik is expected to grow from 0.5 million cubic feet per day at year end to approximately two million cubic feet per day in 2001, with an estimated peak day delivery of eight million cubic feet per day in 2001.

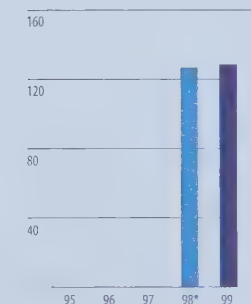
This project, which provides an economically and environmentally preferable alternative energy source to the diesel fuel currently being used in the North, is viewed by AltaGas as an important first step in establishing a presence for access to future natural gas projects in the Northwest Territories.

**NATURAL GAS DISTRIBUTION
CUSTOMERS**
(# of customers)



* AltaGas Utilities was acquired in 1998

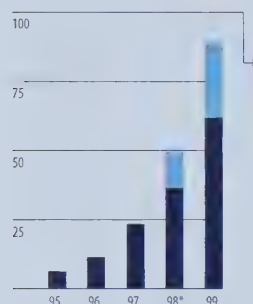
**NATURAL GAS DISTRIBUTION
RATE BASE**
(GROSS) (\$ millions)



* AltaGas Utilities was acquired in 1998

MANAGEMENT'S DISCUSSION & ANALYSIS

NET REVENUE BY SEGMENT
(\$ millions)



■ Natural Gas Distribution
■ Gathering, Processing and Services

* Represents six months ownership of AltaGas Utilities

The following discussion and analysis provides a comparison of AltaGas' performance and financial position in 1999 to 1998 and should be read in conjunction with the consolidated financial statements and accompanying notes.

RESULTS OF OPERATIONS

AltaGas grew significantly in 1999 establishing record operating and financial results for the sixth consecutive year. In the Gathering, Processing and Services segment, the Company's growth was primarily related to a series of acquisitions and expansions that resulted in higher natural gas volumes processed. Growth in the Natural Gas Distribution segment was mainly due to the full year impact of the acquisition of AltaGas Utilities Inc. on June 30, 1998.

CONSOLIDATED OPERATIONS

| (\$ millions) | 1999 | 1998 | % Change |
|------------------------------------|-------|-------|----------|
| Revenue | 257.8 | 122.1 | 111 |
| Gathering, Processing and Services | 195.9 | 94.8 | 107 |
| Natural Gas Distribution | 66.0 | 27.3 | 142 |
| Intersegment transactions | (4.1) | — | — |
| Net revenue | 89.1 | 49.2 | 81 |
| Net income | 11.0 | 7.0 | 56 |
| EBITDA | 43.3 | 24.2 | 79 |

Revenue was \$257.8 million in 1999, an increase of 111 percent from \$122.1 million in 1998. Net revenue (revenue minus the costs associated with the purchase of natural gas) was \$89.1 million in 1999, an increase of 81 percent from \$49.2 million in 1998.

For the 12 months ended December 31, 1999, net income increased 56 percent to \$11.0 million, compared to \$7.0 million in 1998. Net income applicable to basic shares outstanding was \$0.42 per share in 1999 compared to \$0.38 per share in 1998. On a fully diluted basis, net income per share was \$0.34 in 1999 compared to \$0.29 per share in 1998.

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose 79 percent to \$43.3 million from \$24.2 million in 1998. EBITDA per basic share was \$1.64 in 1999, an increase of \$0.32 from 1998. On a fully diluted basis, EBITDA per share was \$1.30 for the 12 months ended December 31, 1999 compared to \$1.01 per share in 1998.

The basic per share results reflect 26.4 million weighted average shares outstanding for the year ended December 31, 1999 compared to 18.4 million weighted average shares outstanding for 1998. The fully diluted per share calculations reflect 34.3 million shares, options and warrants outstanding for the year ended December 31, 1999 compared to 24.3 million shares, options and warrants outstanding for 1998.

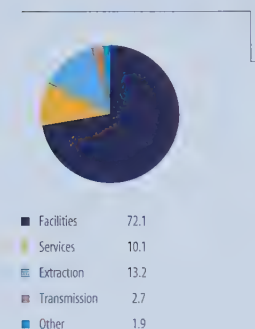
RESULTS BY OPERATING SEGMENT

AltaGas' operations are grouped into two principal business segments: Gathering, Processing and Services and Natural Gas Distribution. Gathering, Processing and Services includes four interrelated components: gathering and processing facilities, extraction plant interests, a transmission pipeline, and our value-adding services business. Natural Gas Distribution includes AltaGas' wholly-owned subsidiary AltaGas Utilities Inc. and the Company's one-third interest in Inuvik Gas Ltd., a company that distributes natural gas to the Northwest Territories Power Corporation and the Town of Inuvik.

Gathering, Processing and Services

| (\$ millions, unless otherwise noted) | 1999 | 1998 | % Change |
|---|-------|-------|----------|
| Revenue | 195.9 | 94.8 | 107 |
| Net revenue | 61.8 | 36.3 | 70 |
| Cost of sales | 134.0 | 58.5 | 129 |
| EBITDA | 28.7 | 17.0 | 69 |
| Gathering and processing facilities | | | |
| Revenue | 44.6 | 27.1 | 65 |
| Net revenue | 44.6 | 27.1 | 65 |
| Gross capacity (Mmcfd) | 658 | 494 | 33 |
| Gross throughput – last quarter average (Mmcfd) | 371 | 276 | 34 |
| Facility utilization (%) | 56 | 56 | – |
| Services | | | |
| Revenue | 140.3 | 63.6 | 121 |
| Net revenue | 6.3 | 5.1 | 24 |
| Volumes marketed (Mmcfd) | 157 | 90 | 74 |
| Producing wells operated (# of wells) | 669 | 525 | 27 |
| Extraction | | | |
| Revenue | 8.2 | 3.5 | 134 |
| Net revenue | 8.2 | 3.5 | 134 |
| NGL and ethane extraction capacity (Bbls/d) | 3,230 | 1,796 | 80 |
| NGL and ethane production (Bbls/d) | 2,198 | 956 | 130 |
| Transmission | | | |
| Revenue | 1.7 | 0.1 | – |
| Net revenue | 1.7 | 0.1 | – |
| Volumes transported (Mmcfd) | 25.8 | 15.8 | 63 |

1999 GATHERING, PROCESSING AND SERVICES NET REVENUE (%)



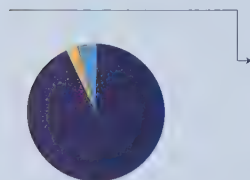
Revenue from Gathering, Processing and Services increased 107 percent to \$195.9 million for the year compared to \$94.8 million in 1998. Natural gas marketing services are primarily margin based, with revenue increases closely tracked by increases in costs to purchase natural gas. Revenue, net of this commodity impact (net revenue), was \$61.8 million for Gathering, Processing and Services for the year ended December 31, 1999 compared to \$36.3 million in 1998, an increase of 70 percent.

Approximately 68 percent of the growth in net revenue in this segment was due to increased volumes processed through AltaGas' gathering and processing facilities from facility acquisitions and well tie-ins. Another 19 percent of the increase relates to higher volumes processed at the extraction plants due to facility expansions. The remaining increase in net revenue was due to a combination of higher natural gas volumes marketed, continued growth in well operating services and the expansion of AltaGas' transmission pipeline operations.

Cost of sales primarily relates to natural gas purchases associated with natural gas marketing services. Cost of sales increased 129 percent to reach \$134.0 million in 1999 compared to \$58.5 million in 1998 mainly due to growth in natural gas volumes marketed and higher natural gas prices.

Operating and administrative expenses related to Gathering, Processing and Services were \$33.2 million in 1999 compared to \$19.2 million in 1998. This increase is largely related to the increased number of facilities owned by AltaGas in 1999 over 1998 and the corresponding increased infrastructure required to support higher activity levels in 1999. Also contributing to the increase were higher head office expenses associated with increased staffing costs to support increased operations.

1999 NATURAL GAS
DISTRIBUTION NET REVENUE
(%)



| | |
|------------------|------|
| ■ Sales | 92.7 |
| ■ Transportation | 2.8 |
| ■ Other | 4.5 |

Natural Gas Distribution

| (\$ millions, unless otherwise noted) | 1999 | 1998* | % Change |
|---|--------|--------|----------|
| Revenue | 66.0 | 27.3 | 142 |
| Net revenue | 27.2 | 12.9 | 111 |
| Cost of sales | 38.8 | 14.4 | 169 |
| EBITDA | 14.6 | 7.2 | 103 |
| Number of customers | 55,636 | 55,147 | 1 |
| Volume of natural gas distributed and transported (Bcf) | 19.2 | 8.8 | 118 |
| Gross rate base | 128.4 | 126.6 | 1 |

* For the six months of AltaGas ownership from June 30, 1998

Natural Gas Distribution revenue was \$66.0 million for the year ended December 31, 1999 compared to \$27.3 million in 1998. Results for 1998 include AltaGas Utilities Inc. for the six months of AltaGas ownership from June 30. Inuvik Gas Ltd., which started deliveries of natural gas to the Northwest Territories Power Corporation in September and Inuvik residential customers by year end, did not impact income in 1999 due to startup costs.

AltaGas Utilities' revenues are affected by changes in the market price of natural gas. However, profitability is relatively unaffected by changes in the cost of gas as AltaGas Utilities, subject to approval by the Alberta Energy and Utilities Board (AEUB), the authority under which AltaGas Utilities is regulated, passes the cost of natural gas through to its customers. Consequently, it is more relevant to view revenue net of the cost of gas. Net revenue for AltaGas Utilities for the year ended December 31, 1999 was \$27.2 million on natural gas sales and transportation volumes of 19.2 billion cubic feet. For the six months of AltaGas ownership during 1998 net revenue was \$12.9 million on sales and transportation volumes of 8.8 billion cubic feet.

The natural gas distribution business is highly seasonal with the majority of natural gas deliveries occurring during the winter heating season from mid-October to mid-April. Gas sales during the winter typically account for approximately two-thirds of annual gas distribution revenue, resulting in strong first and fourth quarter results and second and third quarters that show either small profits or losses.

The natural gas distribution business is also sensitive to variations from normal weather conditions. Colder than normal weather conditions produce higher revenue and earnings, with the opposite result occurring in warmer than normal weather conditions. Natural gas sales to the residential and small commercial market are extremely weather sensitive. For the month of December 1999, the weather in the Edmonton area, which is AltaGas Utilities' single largest distribution centre, was on average 23 percent warmer than the 20 year historical average. As a result of the warmer than normal weather in December, AltaGas Utilities' net revenue for the fourth quarter of 1999 was \$7.7 million, \$0.9 million lower than net revenue in the fourth quarter of 1998. For the calendar year 1999, the weather was on average one percent warmer than the 20 year historical average. This warmer than normal weather in the Edmonton area for the calendar year did not materially impact natural gas sales or net revenues.

Positively influencing net revenue during 1999 was the addition of approximately 500 new customers in existing franchise areas. In July 1999, AltaGas Utilities was awarded the rights to provide natural gas service to the Kikino and Buffalo Metis Settlements in northeastern Alberta. Construction of these service areas occurred late in 1999 and service will be available to approximately 490 premises in early 2000.

Operating and administrative expenses related to AltaGas Utilities were \$12.6 million for 1999 as compared to \$5.7 million for 1998. Cost increases reflect the impact of owning AltaGas Utilities for a full 12 month reporting period as well as the growth of the distribution system.

Natural gas distribution companies are provincially regulated as to natural gas tariffs for sales and transportation. The AEUB approves AltaGas Utilities' customer rates based on anticipated sales as well as the revenue required to recover estimated costs of service and a fair return on the rate base. In February 1996, the AEUB allowed AltaGas Utilities an 11.75 percent rate of return on common equity and a common equity component of 24 percent of the gross rate base, or an effective rate of 41 percent of the net rate base. The rate base generally consists of the aggregate of the utility's approved investment in plant, property and equipment in service less accumulated depreciation plus an allowance for working capital. The net rate base excludes "no-cost capital" which is contributions and grants from governments and certain customers in aid of construction. Absent an application, the AEUB is allowed to conduct a statutory review every three years. Regulatory practice in the province is for the utility and its customers to negotiate an agreement and to file the agreement with the AEUB for approval. AltaGas Utilities plans to commence negotiations with its customers and file a general rate application in late 2000.

In the Natural Gas Distribution segment, EBITDA for the year ended December 31, 1999 was \$14.6 million compared to EBITDA of \$7.2 million in 1998. In this segment, EBITDA for the three months ended December 31, 1999 was \$4.8 million compared to \$5.8 million for the same period in 1998. The results for the 12 month period primarily reflect the full year impact of the acquisition of AltaGas Utilities. The results for the three month period ended December 31, 1999 reflect the negative impact of weather.

CONSOLIDATED EXPENSES

| (\$ millions) | 1999 | 1998 | % Change |
|------------------------------|------|------|----------|
| Interest expense | 10.6 | 5.5 | 93 |
| Operating and administrative | 45.8 | 24.9 | 84 |
| Amortization | 15.5 | 7.6 | 104 |
| Income taxes | 6.2 | 4.2 | 48 |

Interest Expense

AltaGas' interest expense increased to \$10.6 million in 1999 from \$5.5 million in 1998. The increase reflects the impact of AltaGas' capital expenditure program resulting in higher average debt balances outstanding throughout the year. In anticipation of Enbridge's \$90.0 million purchase of participating shares on September 30, 1999 AltaGas' debt levels climbed throughout the summer. The Enbridge equity was used to repay a short-term credit facility provided by Enbridge and to reduce outstanding bank borrowings resulting in \$151.9 million in debt at year end 1999. AltaGas' weighted average cost of borrowing was 6.34 percent in 1999 compared to 6.43 percent in 1998. The lower borrowing costs in 1999 reflect lower average bankers' acceptance rates and prime rates throughout 1999 and lower standby fees in late 1999 on the undrawn portion of the Company's credit facilities.

Operating and Administrative

AltaGas' operating and administrative expenses increased to \$45.8 million in 1999 from \$24.9 million in 1998. Operating costs accounted for approximately 65 percent of the increase as a result of the increase in the number of facilities owned by AltaGas and the full year impact of the acquisition of AltaGas Utilities. Administrative expenses accounted for the remaining 35 percent of the increase primarily due to costs associated with the addition of 45 employees, the infrastructure to support AltaGas' growth in 1999, and the full year impact of the acquisition of AltaGas Utilities.

Amortization

Amortization increased to \$15.5 million in 1999 from \$7.6 million in 1998, reflecting the growth in facility investment from expansions of existing facilities and the acquisition of new facilities, and the ownership of AltaGas Utilities for the full year.

Income Tax

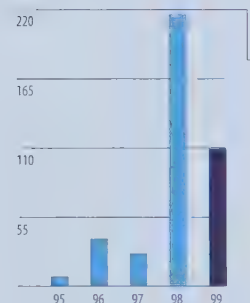
Income tax expense for 1999 was \$6.2 million compared to \$4.2 million in 1998. Income from the Gathering, Processing and Services segment was not cash taxable in 1999 or 1998 due to the capital cost allowance available as a result of capital investment. In 1999 and 1998, current income taxes related to AltaGas Utilities' operations and large corporations taxes paid. Income tax was provided at an effective rate of 36.08 percent in 1999, down slightly from 37.31 percent in 1998. This decrease is due to a reduction in the effective rate for the Gathering, Processing and Services segment, offset by the impact of AltaGas Utilities' higher effective tax rate and the ownership of AltaGas Utilities for the full 12 month reporting period. A higher amount of AltaGas' 1999 income qualified for federal resource allowance due to the continued growth in gathering and processing operations.

Capital Expenditures

Net capital expenditures for 1999 totaled \$108.7 million compared to \$216.4 million in 1998. As a result, total assets grew to \$429.2 million in 1999 from \$322.9 million in 1998.

The majority of the 1999 capital was invested in the Gathering, Processing and Services segment where \$104.8 million was spent acquiring and expanding gathering and processing facilities, expanding extraction plants and building AltaGas' Whitney Lake transmission pipeline. The acquisition of new assets accounted for approximately 43 percent of total Gathering, Processing and Services investment, while expansion of existing assets accounted for the remaining 57 percent of investment.

CAPITAL EXPENDITURES
(NET) (\$ millions)



The 1999 Natural Gas Distribution segment capital expenditure was \$3.9 million. This primarily relates to costs associated with construction of the Kikino and Buffalo Lake Metis Settlements, expansions in existing franchise areas and new subdivision development. Capital expenditures are net of customer contributions, government grants and the proceeds from the disposition of assets.

Capital programs in 1999 were essentially financed through funds generated from operations of \$29.0 million and \$90.4 million from the issuance of equity. The capital program was expended as follows:

| (\$ millions) | 1999 | 1998 | 1994 – 1997 | Total |
|------------------------------------|-------|-------|-------------|-------|
| Gathering, Processing and Services | | | | |
| Gathering and processing | 92.0 | 72.6 | 70.1 | 239.3 |
| Extraction | 4.6 | 18.7 | 2.4 | 25.7 |
| Transmission | 6.1 | 5.1 | — | 11.2 |
| Other | 2.1 | 5.3 | 0.8 | 3.7 |
| Total | 104.8 | 101.7 | 73.3 | 279.9 |
| Natural Gas Distribution | 3.9 | 114.7 | — | 118.5 |
| Total AltaGas | 108.7 | 216.4 | 73.3 | 398.4 |

Although AltaGas has concluded many facility acquisitions since startup in 1994, acquisitions are opportunity driven. Consequently, AltaGas cannot budget for, nor can the Company reasonably predict, the timing or size of possible acquisitions, if any.

LIQUIDITY AND CAPITAL RESOURCES

Funds generated from operations in 1999 increased to \$29.0 million, an increase of 85 percent from \$15.7 million in 1998. The increase in 1999 primarily reflects the operating results previously discussed and the continued focus on the management of working capital.

AltaGas had a working capital surplus of \$9.2 million at December 31, 1999 compared to a surplus of \$5.8 million at the end of 1998. Due to the seasonality of gas distribution operations and the unpredictability of the timing of costs associated with facility expenditures, AltaGas may carry a working capital deficit for certain periods during 2000.

AltaGas' capital structure is determined by considering the norms and risks associated with each of its business components and segments. The Company's long-term goal is to maintain debt at approximately 55 to 60 percent of total capital, which reflects the stability of AltaGas' earnings. AltaGas believes this target enables the Company to maintain its strong financial position and take advantage of attractive investment opportunities that may arise. AltaGas' credit facility agreements allow for a debt to total capitalization of 65 percent. AltaGas' debt as a percent of total capitalization at December 31, 1999 was 40 percent, compared to 55 percent at year end 1998. The lower than targeted debt level at year end 1999 reflects the \$90.4 million in proceeds received from the issuance of equity and lower than anticipated 1999 investment levels. The Company estimates it can incur an additional \$135.0 million to \$200.0 million in debt and stay within its target for debt as a percent of total capital.

At year end 1999 all of AltaGas' debt was through its credit facilities, with \$151.9 million or 60 percent of the facility drawn. Access to unutilized credit lines, the issuance of new debt and funds generated from operations provide AltaGas with significant capital resources and liquidity to fund existing operations and capture substantial acquisition and expansion opportunities in 2000.

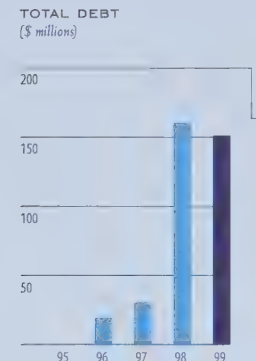
FINANCING ACTIVITIES

AltaGas funds all subsidiary borrowings. In addition to operating cash flows, AltaGas' credit facilities and the private placement of equity have been important sources of capital.

During the year, AltaGas renegotiated its credit facilities to modify the terms and conditions to provide for additional financial flexibility and to increase the amount to \$250.0 million. The unsecured bank credit facilities consist of a \$220.0 million extendible revolving facility convertible to a three year term and a \$30.0 million demand operating credit facility. The \$220.0 million facility is syndicated with four Canadian banks. The Company may request that the revolving period on the \$220.0 million facility be extended an additional 364 days by notifying the banks of the request prior to the end of the revolving period. At year end 1999, debt associated with the two credit facilities was \$151.9 million.

During May 1999, Enbridge rendered AltaGas a \$60.0 million unsecured line of credit to support investment activities until the Company received the Enbridge equity infusion. The loan was repaid and cancelled on September 30, 1999.

AltaGas targets to have 70 to 75 percent of its debt at fixed interest rates. At year end 1999, all of AltaGas' debt was in the form of advances on its bank credit facilities bearing interest at floating rates. AltaGas reduces financing costs and minimizes the effect of fluctuating interest rates on cash flow through the use of bankers' acceptances, interest rate swaps and other initiatives. At December 31, 1999 the Company had fixed interest rates on \$66.0 million of its floating rate debt through interest rate swaps. During 2000, AltaGas may, subject to capital market conditions, extend the term of and fix the rate on a portion of the Company's bank financing through the public or private capital markets.



AltaGas received a BBB rating from the Dominion Bond Rating Service (DBRS) and a B++ rating from the CBRS Inc. (CBRS) in 1998. DBRS confirmed its rating in July 1999 and CBRS confirmed its rating and revised its outlook on AltaGas to positive on December 9, 1999.

Net proceeds from the issuance of equity to employees and Enbridge were \$90.4 million in 1999. In May 1999, AltaGas and Enbridge announced a strategic alliance to provide midstream service to Canadian natural gas producers. Enbridge is a leader in energy transportation, distribution and services. Under the terms of the arrangement, in August 1999, Enbridge purchased 7.0 million common shares at \$10.00 per share from existing shareholders and on September 30, 1999 Enbridge purchased a further 9.0 million participating shares by way of private placement from AltaGas' treasury at \$10.00 per share. The non-voting participating shares are convertible into common shares, one for one, any time prior to September 30, 2004. After September 30, 2004 AltaGas may redeem the participating shares or convert them to common shares. At December 31, 1999 Enbridge held a total of 16.3 million AltaGas shares, an approximate 39.6 percent interest in the Company. Enbridge has the right to participate for a five year period in public equity offerings to maintain its interest.

OTHER CORPORATE ACTIVITIES

In June 1999, the Series A and Series B Special Warrants issued during 1998 were converted into 9.6 million common shares. AltaGas began trading under the symbol ALA on the Alberta Stock Exchange (now the Canadian Venture Exchange) on July 22, 1999 and on the Toronto Stock Exchange on January 17, 2000. AltaGas de-listed from the Canadian Venture Exchange on January 31, 2000.

BUSINESS RISKS

AltaGas is exposed to certain risks inherent in the natural gas business which include natural gas reserve life and commodity prices which may impact facility throughput.

AltaGas actively pursues opportunities to maintain or increase throughput at all facilities. Volume additions are obtained from new well tie-ins, and by recompletions and well optimization activity performed by producers. Overall AltaGas has been successful in connecting new reserves to more than offset production declines at existing facilities. Industry decline rates generally vary from 15 to 30 percent depending on a producer's field production practices and the producing zone or formation of the wells tied-in to AltaGas' facilities. While individual AltaGas facilities may have steeper decline rates, on a Company-wide basis AltaGas' historical decline rate is at the lower end of industry norms. Natural gas well completions in Canada were at record levels in 1999 reaching 6,296 wells. Well completions are expected to reach record levels again in 2000, however, climatic conditions, industry cash flows and producers' access to capital may postpone drilling activity at any time. The majority of AltaGas' gathering and processing contracts provide for dedicated lands and reserves or areas of mutual interest. This provides the Company with new acreage to replace declines in reserves and generate additional volumes for gathering and processing at its facilities and encourages expansion into areas where AltaGas' facilities are located. AltaGas also varies its gathering and processing fee structures to provide for a portion of guaranteed minimum or cost-of-service revenues that are less dependent on throughput.

AltaGas' exposure to commodity price fluctuations is largely indirect. If natural gas prices were to decrease to the point where certain producers found it uneconomical to produce gas, throughput at some AltaGas facilities could be reduced. The price at which a particular producer would shut-in gas depends on that producer's business strategy and production costs. During 1999, the monthly weighted average intra-Alberta price for natural gas ranged from \$2.22 to \$3.59 per gigajoule as compared to a range of \$1.63 to \$2.83 per gigajoule during 1998. Over these price ranges, AltaGas did not experience a reduction in throughput at any of its facilities due to wells shut-in due to gas prices.

An additional risk, more significant in the Gathering, Processing and Services segment, is customer credit worthiness. The Company is exposed to credit-related losses in the event that counterparties to contracts fail to perform. AltaGas minimizes counterparty risk by conducting credit reviews on clients prior to providing service, by setting exposure limits and monitoring exposures against these limits and, where warranted, by obtaining financial assurances from clients. Where gathering and processing services are provided, AltaGas is generally granted the contractual right to offset unpaid gathering and processing fees against the proceeds of related natural gas or natural gas liquids sales handled by AltaGas. AltaGas does not believe that there are any significant concentrations of credit risk given its 21 operating areas and its over 200 customers.

The Natural Gas Distribution segment is sensitive to variations from normal weather conditions. Colder than normal weather conditions produce higher revenues and earnings, with the opposite result occurring in warmer than normal weather conditions.

OPERATIONAL RISKS

AltaGas' operations are also subject to the risks normally incident to the operation and development of natural gas facilities and pipelines, including unusual or unexpected environmental and safety conditions, occurrence of acts of civil disobedience or disruption which could result in personal injuries, loss of life and damage to property. The Company minimizes these risks through safety programs and risk management, including insurance coverage at levels maintained by a prudent plant owner/operator. In addition, the Company believes that operational risk is best managed by maintaining control over the timing of capital expenditures, operational decisions and costs by becoming the operator of the facilities in which it invests. At the end of 1999, AltaGas operated 89 percent of the facilities in which it had an interest.

AltaGas buys natural gas, primarily volumes processed through AltaGas' field plants, for sale to various markets. The Company does not assume price risk in these transactions, as the purchase price paid to producers at the field plants is a netback price based on the market price achieved, reduced by direct transportation and a fixed fee to AltaGas.

AltaGas Utilities' municipal franchises come up for renewal periodically. It is contractually possible for a municipality not to renew the franchise, however, AltaGas considers the loss of a franchise to be a remote possibility. A municipality purchasing back a franchise would be required to pay AltaGas Utilities the full reproduction value less any loss in the value of the system.

ENVIRONMENTAL

Prior to conducting any major acquisition, AltaGas obtains independent environmental audits on the facilities to be acquired. In addition, AltaGas conducts systematic environmental assessments of its existing facilities. The Company believes that the cost for compliance with current environmental laws and regulations have not had and will not have a material effect on the Company's financial position.

SENSITIVITY ANALYSIS

The following table illustrates the effects of economic and operational changes on AltaGas' 2000 budgeted net income.

| Factor | Increase or Decrease | Net Income Per Share |
|--|----------------------|----------------------|
| Processed volumes at existing facilities | 5 Mmcf/d | \$ 0.013 |
| Natural gas volumes marketed | 5 Mmcf/d | \$ 0.001 |
| Natural gas price | \$0.50/Mcf | \$ 0.006 |
| Weather change in degree days ⁽¹⁾ | 10 % | \$ 0.019 |
| Prime interest rate | 1 % | \$ 0.017 |

⁽¹⁾ Degree day – The cumulative extent to which the daily mean temperature falls below 18 degrees Celsius. Normal degree days are based on a 20 year rolling average.

The 10 percent sensitivity is relative to the 20 year rolling average.

YEAR 2000

The Year 2000 issue arose because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates to represent something other than a date. Although the change in date has occurred, and AltaGas has not experienced any disruption of business to date related to Year 2000 issues, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the Company, including those related to customers, suppliers, or third parties, have been fully resolved. The costs associated with Year 2000 projects were expensed or capitalized depending on their nature. Capital costs associated with Year 2000 to the end of 1999 did not have a material effect on the financial results of AltaGas.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS



David W. Cornhill

President and Chief Executive Officer



Patricia M. Newson

Senior Vice President Finance and Chief Financial Officer

March 17, 2000

Management recognizes that it is responsible for the preparation of the consolidated financial statements and is satisfied that these statements have been prepared using accounting principles generally accepted in Canada and are within reasonable limits of materiality. Further, management is satisfied that the financial information contained in this annual report is consistent with that presented in the consolidated financial statements. The Company's internal controls and systems are designed to provide reasonable assurance that its assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information.

External auditors have been engaged by the Company to examine the consolidated financial statements. The Audit Committee of the Board of Directors has reviewed these statements with the external auditors and management and has reported its findings to the Board. The Board of Directors, on the recommendation of the Audit Committee, has approved the consolidated financial statements contained in this report.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF ALTAGAS SERVICES INC.

We have audited the consolidated balance sheets of AltaGas Services Inc. as at December 31, 1999 and 1998 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.



Chartered Accountants

February 11, 2000
Calgary, Canada

CONSOLIDATED BALANCE SHEETS

as at December 31

| (\$ thousands) | 1999 | 1998 |
|---------------------------------------|------------|------------|
| ASSETS | | |
| Current assets | | |
| Accounts receivable | \$ 41,455 | \$ 29,794 |
| GST and income taxes recoverable | 2,573 | 2,353 |
| Inventory | 2,550 | 1,654 |
| Other (note 7) | 2,716 | 664 |
| | 49,294 | 34,465 |
| Capital assets (note 3) | 369,520 | 276,332 |
| Investments and other assets (note 4) | 10,348 | 12,078 |
| | \$ 429,162 | \$ 322,875 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|------------|------------|
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 39,349 | \$ 26,404 |
| Prepaid revenue | 515 | 1,392 |
| Other | 280 | 855 |
| | 40,144 | 28,651 |
| Operating loans (note 5) | 151,881 | 160,294 |
| Prepaid revenue | 858 | 458 |
| Deferred income taxes | 6,142 | 4,686 |
| | 158,881 | 165,438 |
| Shareholders' equity | | |
| Share capital (note 7) | 203,583 | 113,190 |
| Retained earnings | 26,554 | 15,596 |
| | 230,137 | 128,786 |
| | \$ 429,162 | \$ 322,875 |

Commitments (note 8)

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Directors:



Director



Director

CONSOLIDATED STATEMENTS OF INCOME & RETAINED EARNINGS

for the years ended December 31

| (\$ thousands except for per share amounts) | 1999 | 1998 |
|---|----------------|----------------|
| REVENUE | | |
| Operating | \$ 257,067 | \$ 121,473 |
| Other | 728 | 592 |
| | 257,795 | 122,065 |
| EXPENSES | | |
| Cost of sales | 168,722 | 72,911 |
| Operating and administrative | 45,780 | 24,921 |
| Amortization | 15,542 | 7,588 |
| | 230,044 | 105,420 |
| Operating income | 27,751 | 16,645 |
| Interest expense (notes 5 and 6) | 10,607 | 5,469 |
| Income before income taxes | 17,144 | 11,176 |
| Income taxes (note 9) | | |
| Current | 3,384 | 2,005 |
| Deferred | 2,802 | 2,165 |
| | 6,186 | 4,170 |
| Net income | 10,958 | 7,006 |
| Retained earnings, beginning of year | 15,596 | 8,590 |
| Retained earnings, end of year | \$ 26,554 | \$ 15,596 |
| Basic net income per share (note 7) | \$ 0.42 | \$ 0.38 |

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31

| (\$ thousands except for per share amounts) | 1999 | 1998 |
|---|-----------|-----------|
| Cash from operations | | |
| Net income | \$ 10,958 | \$ 7,006 |
| Items not involving cash: | | |
| Amortization | 15,542 | 7,588 |
| Equity income | (112) | (63) |
| Gain on sale of assets and investments | (616) | (529) |
| Deferred income taxes | 2,802 | 2,165 |
| Other | — | (49) |
| Increase (decrease) in prepaid revenue | 400 | (380) |
| Funds generated from operations | 28,974 | 15,738 |
| Net change in non-cash working capital (note 10) | (5,015) | (6,643) |
| | 23,959 | 9,095 |
| Investing activities (note 10) | | |
| Acquisition of capital assets | (110,565) | (112,560) |
| Disposition of capital assets | 172 | 2,202 |
| Acquisition of AltaGas Utilities Inc. (note 2) | — | (107,766) |
| Acquisition of investments and other assets | (506) | (5,021) |
| Disposition of investments and other assets | 6,044 | 375 |
| | (104,855) | (222,770) |
| Financing activities | | |
| Increase (decrease) in operating loans | (8,413) | 130,113 |
| Net proceeds from issuance of common shares and special warrants (note 7) | 573 | 83,562 |
| Net proceeds from issuance of participating shares (note 7) | 88,736 | — |
| | 80,896 | 213,675 |
| Change in cash | — | — |
| Cash, beginning of year | — | — |
| Cash, end of year | \$ — | \$ — |
| Basic funds generated from operations per share (note 7) | \$ 1.10 | \$ 0.85 |

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts in thousands of dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada. Significant accounting policies are summarized below:

Basis of Presentation

These consolidated financial statements include the accounts of AltaGas Services Inc. (AltaGas or the Company) and its wholly-owned subsidiaries, AltaGas Marketing Inc., AltaGas (Sask.) Inc., AltaGas Energy Solutions Inc., AltaGas Transmission Ltd., Alberta Compression Rental Services, AltaGas Energy Processors Inc., AltaGas Utility Holdings Inc., AltaGas Utilities Inc., and Bonnyville Gas Company Limited.

The Company has entered into joint venture arrangements, and accordingly the accounts reflect only the Company's proportionate interest in these activities.

Certain comparative figures have been reclassified to conform to the current financial statement presentation.

Capital Assets and Amortization

Capital assets are recorded at cost, except for regulated natural gas distribution assets, which are recorded at cost plus an allowance, at rates authorized by the Alberta Energy Utilities Board (AEUB), for interest during construction. Contributions in aid of construction of natural gas distribution assets are deducted from the cost of acquiring property, plant and equipment, with subsequent amortization calculated on the net cost.

Amortization, based on original cost without regard to salvage values, is calculated on a straight-line basis over the estimated useful lives of the capital assets, except for regulated natural gas distribution assets, where amortization is calculated on a straight-line basis at rates approved by the AEUB:

Gathering, Processing and Services

| | |
|---------------------------------|---------------|
| Gathering and processing assets | 15 – 25 years |
| Other assets | 1 – 5 years |

Natural Gas Distribution

| | |
|---------------------------------|---------------|
| Natural gas distribution assets | 2 – 8 percent |
| Other assets | 8 percent |

Future removal and site restoration costs in excess of expected salvage values are charged to income over the expected useful life of the gas plant or gathering line. Decommissioning costs, potential environmental clean-up costs and costs to restore gas plant and gathering line sites to original condition are estimated based on costs and regulations in effect at year end. These costs and salvage values are evaluated annually.

Inventory

Materials and supplies are valued at the lower of average cost and replacement cost. Natural gas inventories are valued at costs approved by the AEUB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes

Except for natural gas distribution operations, AltaGas follows the deferral method of tax allocation accounting, under which the income tax provision is based on the income reported in the accounts. Under this method, the Company makes full provision for income taxes deferred, principally as a result of claiming capital cost allowance in amounts different than the amortization provided in the accounts.

Natural gas distribution income taxes are provided using the taxes payable method approved by the AEUB. In accordance with an AEUB decision, provision is made only for those income taxes currently payable and no deferred tax is recorded on the timing differences between accounting income and taxable income.

Pension Costs

Pension costs and obligations are determined annually by independent actuaries using management's best estimate assumptions and the projected benefit method prorated on services. Adjustments arising from plan amendments, changes in assumptions and experience gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employee group.

Stock Based Compensation Plan

The Company follows the intrinsic value method of accounting for stock based compensation plans. Consideration paid by employees or directors on the exercise of stock options is credited to share capital. Options are issued at current market value, consequently no compensation expense is recorded.

Per Share Information

Per share information is calculated on the basis of the weighted average number of common and participating shares outstanding during the year. Fully diluted per share information is calculated as if all of the options and special warrants and related common share purchase warrants outstanding at year end were converted at the later of the beginning of the year or the date of issuance.

Financial Instruments

Interest rate swap contracts are used to hedge against adverse fluctuations in interest rates. Amounts received or paid periodically under interest rate swaps are recognized in interest expense on an accrual basis. Unless otherwise disclosed in the notes to the financial statements, the fair value of financial instruments approximates their carrying value.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the reported period. By their nature, these estimates are subject to measurement uncertainty and may impact the financial statements of future periods.

Long-term Investments

Investments in companies in which AltaGas has the ability to exercise significant influence are accounted for by the equity method. Other long-term investments are carried at cost except for investments in flow-through common shares. Flow-through common shares are carried at cost, reduced by the estimated deferred income tax benefit from the renunciation of resource expenditure deductions related to the exploration and development activities funded by the issuance of the shares.

Prepaid Revenue

Revenue received in advance of services being rendered is recorded as prepaid revenue.

2. ACQUISITION OF ALTAGAS UTILITIES INC.

On June 30, 1998 AltaGas purchased all of the issued shares of Centra Gas Alberta Inc. (now AltaGas Utilities Inc.), a natural gas distribution business, for cash of \$62.5 million and repaid \$45.3 million of AltaGas Utilities Inc. debt. The acquisition is accounted for using the purchase method. AltaGas' results include operating results of AltaGas Utilities Inc. from July 1, 1998.

Net Assets Acquired

| | |
|------------------|-------------------|
| Capital assets | \$ 106,016 |
| Working capital | 1,629 |
| Other assets | 2,267 |
| Mortgage payable | (800) |
| Prepaid revenue | (1,346) |
| | <u>\$ 107,766</u> |

Summarized below are the unaudited pro forma operating results of the Corporation, assuming the AltaGas Utilities Inc. purchase had been consummated on January 1, 1998. These pro forma results are based upon historical results of operations and are not necessarily indicative of results that would have occurred.

| | |
|----------------------|---------------------|
| | 1998 (Unaudited) |
| Revenue | \$ 149,710 |
| Net income | \$ 8,470 |
| Net income per share | \$ 0.39 |

Pro forma income per share is based on the weighted average number of common shares outstanding during the period ended December 31, 1998 increased by 3,000,000 common shares issued upon the exercise on January 1, 1998 of the Series A Special Warrants issued in conjunction with the acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. CAPITAL ASSETS

| | Cost | 1999 Accumulated Amortization | Net Book Value | Cost | 1998 Accumulated Amortization | Net Book Value |
|---|-------------------|-------------------------------------|-------------------|-------------------|-------------------------------------|-------------------|
| Gathering, Processing and Services | | | | | | |
| Gathering and processing assets | \$ 277,836 | \$ 18,509 | \$ 259,327 | \$ 168,782 | \$ 8,793 | \$ 159,989 |
| Other assets | 2,774 | 769 | 2,005 | 6,927 | 518 | 6,409 |
| Natural Gas Distribution | | | | | | |
| Natural gas distribution assets | 128,209 | 34,536 | 93,673 | 127,302 | 31,070 | 96,232 |
| Other assets | 24,159 | 9,644 | 14,515 | 24,245 | 10,543 | 13,702 |
| | \$ 432,978 | \$ 63,458 | \$ 369,520 | \$ 327,256 | \$ 50,924 | \$ 276,332 |

No charge for future removal and site restoration costs for gas plants and gathering lines was made to earnings for the years ended December 31, 1999 and 1998, as estimated salvage values are in excess of estimated removal and site restoration costs. No site restoration costs were actually incurred in these years.

4. INVESTMENTS AND OTHER ASSETS

| | 1999 | 1998 |
|---|------------------|------------------|
| Common shares of public companies at cost | \$ 3,371 | \$ 3,632 |
| Less income tax benefit of flow-through renunciations | 45 | 183 |
| Common shares of public companies at net cost | 3,326 | 3,449 |
| Common shares of private companies at cost | 235 | 156 |
| Equity investment in common shares of private companies | 3,514 | 242 |
| Advances | 1,317 | 5,445 |
| Other | 1,956 | 2,786 |
| | \$ 10,348 | \$ 12,078 |

At December 31, 1999 the quoted market value of the common shares of public companies was approximately \$5.4 million (1998 – \$3.2 million). Pursuant to the terms under which some of the common shares were acquired, certain hold periods apply. The quoted market value may not be realizable at the expiration of the hold period or any subsequent date of disposition. The fair market value of investments in private companies is not reasonably determinable.

Advances at December 31, 1999 consist primarily of a \$1.3 million demand loan bearing interest at prime plus two percent, to a public company investee. Advances at December 31, 1998 consist primarily of a \$3.5 million interest free demand loan to a public company which was repaid in August, 1999 and a \$1.3 million demand loan bearing interest at prime plus two percent, to a public company investee.

5. OPERATING LOANS

At December 31, 1999 AltaGas had a \$220.0 million committed revolving term credit facility (1998 – \$160.0 million revolving demand credit facility) with a syndicate of Canadian chartered banks, and a \$30.0 million demand operating facility (1998 – \$20.0 million) with a Canadian chartered bank. The outstanding debt of \$151.9 million at December 31, 1999 bears interest at the lender's prime rate or at the bankers' acceptance rate plus a stamping fee. The prime lending rate at December 31, 1999 was 6.50 percent (1998 – 6.75 percent). The rate on the Company's outstanding bankers' acceptances at December 31, 1999 was 5.90 percent (1998 – 5.95 percent).

The committed revolving term facility is subject to extension for an additional year on October 15, 2000 or can be converted on that date to a three year term loan. The term loan is repayable over the three year period or at the end of the three year term, depending on the rating category of the long-term unsecured senior indebtedness of the Company. The bank has stated that provided there are no adverse changes in the financial position of the Company, it is not its intention to call for repayment of the demand operating facility during 2000. Accordingly, the demand loan is classified as long-term.

6. INTEREST RATE SWAPS

To hedge against the effect of future interest rate movements on its cash flows, the Company has fixed the rate of interest on a portion of the bankers' acceptances issued under credit facilities through swap agreements. At December 31, 1999 AltaGas had \$66.0 million in swap agreements (1998 – \$46.0 million) in effect at rates between 4.98 percent and 8.57 percent (1998 – 4.77 percent and 8.57 percent), at a weighted average rate of 6.23 percent (1998 – 6.46 percent). These agreements mature at various dates ranging from July 2000 to April 2004 (1998 – July 1999 to December 2002).

The fair value of interest rate swaps reflects the estimated amounts that the Company would receive or pay to terminate the agreements. At December 31, 1999 termination of the agreements would result in a net payment by the Company of \$0.7 million (1998 – \$2.0 million). At December 31, 1999 the Company had no intention of settling any swap agreements prior to maturity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SHARE CAPITAL

Authorized:

- an unlimited number of common shares without nominal or par value.
- an unlimited number of preferred shares without nominal or par value.

Common Shares and Special Warrants Issued:

| | Number of Shares | Amount |
|--|-------------------|-------------------|
| December 31, 1997 | 18,003,393 | \$ 27,179 |
| Issued for cash: | | |
| Pursuant to private placements | 399,489 | 3,496 |
| To employees other than pursuant to private placements | 466,234 | 1,361 |
| Special warrants issued for cash | — | 83,375 |
| | 18,869,116 | 115,411 |
| Less issue costs, net of tax | — | 2,221 |
| December 31, 1998 | 18,869,116 | 113,190 |
| Issued for cash: | | |
| To employees other than pursuant to private placements | 325,690 | 841 |
| Issued on exercise of special warrants | 9,642,856 | — |
| Special warrants issued for cash | — | 998 |
| | 28,837,662 | 115,029 |
| Less issue costs, net of tax | — | 410 |
| December 31, 1999 | 28,837,662 | \$ 114,619 |

Preferred Participating Shares Issued:

| | Number of Shares | Amount |
|--------------------------------|-------------------|-------------------|
| December 31, 1998 | — | \$ — |
| Issued for cash: | | |
| Pursuant to private placements | 9,000,000 | 90,000 |
| | 9,000,000 | 90,000 |
| Less issue costs, net of tax | — | 1,036 |
| December 31, 1999 | 9,000,000 | \$ 88,964 |
| Total shares issued | 37,837,662 | \$ 203,583 |

In April 1998 the Company sold 6,100,000 Series A Special Warrants at \$8.75 each for gross proceeds of \$53.4 million. Each Series A Special Warrant entitled the holder, at no additional cost, to acquire one common share of the Company.

In November 1998 AltaGas closed private placements of 3,428,571 Series B Special Warrants issued at \$8.75 for gross proceeds of \$30.0 million. In January 1999 an additional 114,285 Series B Special Warrants were issued at the same price for gross proceeds of \$1.0 million. Each Series B Special Warrant entitled the holder, at no additional cost, to acquire one common share of the Company and one-third of one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share of the Company at a price of \$8.75 per share, on or before May 16, 2000.

In June 1999 the Series A and Series B Special Warrants were converted into 9,600,000 common shares.

On September 30, 1999 the Company closed a private placement of 9,000,000 non-voting, participating shares at \$10.00 per share for gross proceeds of \$90.0 million. These shares are convertible at the holder's option into common shares, one for one, any time prior to September 30, 2004. After that date, but by September 30, 2009 AltaGas may either redeem the participating shares or convert them to common shares. These shares share rateably with common shares in any dividend declared on or before September 30, 2002 and to a maximum of \$1.00 per share per year thereafter. On conversion or redemption, or in the event of a winding-up of the Company, the participating shareholders are entitled to \$10.00 per share and their share of the cumulative retained net income of AltaGas since September 30, 1999.

At December 31, 1999 other assets included \$208 thousand (1998 – \$227 thousand) loaned to employees and other shareholders for the purchase of common shares.

The Company has an employee stock option plan under which both employees and directors are eligible to receive grants. At December 31, 1999 a maximum of 2,480,000 common shares are reserved for issuance under the plan. To December 31, 1999 options granted under the plan generally had a term of five years to expiry and vested no longer than over a four year period. Currently, outstanding options are exercisable at various dates to the year 2004. Options outstanding under the plan have a weighted average exercise price of \$4.98 and a weighted average remaining contractual life of 3.3 years.

| Number of Options | Exercise Price | Expiry Date |
|-------------------|----------------|-------------|
| 88,587 | \$ 0.90 | 2000 |
| 184,500 | \$ 1.20 | 2001 |
| 172,000 | \$ 1.30 | 2001 |
| 100,000 | \$ 1.50 | 2001 |
| 505,578 | \$ 2.50 | 2001 – 2002 |
| 9,725 | \$ 3.00 | 2002 |
| 302,642 | \$ 5.00 | 2002 – 2003 |
| 576,745 | \$ 8.75 | 2003 – 2004 |
| 223,900 | \$ 10.00 | 2004 |
| 2,163,677 | | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | 1999 Number of Options | 1999 Weighted Average Exercise Price | 1998 Number of Options | 1998 Weighted Average Exercise Price |
|--|------------------------------|--|------------------------------|--|
| Stock options outstanding, beginning of year | 1,981,900 | \$ 3.44 | 1,724,900 | \$ 1.86 |
| Granted | 522,200 | 9.29 | 624,754 | 7.19 |
| Exercised | 302,390 | 1.84 | 367,754 | 2.23 |
| Cancelled | 38,033 | 8.75 | — | — |
| Stock options outstanding, end of year | 2,163,677 | \$ 4.98 | 1,981,900 | \$ 3.44 |
| Exercisable at year end | 1,918,527 | \$ 4.35 | 1,811,457 | \$ 2.93 |

The weighted average number of shares outstanding for the year ended December 31, 1999 was 26.4 million (1998 – 18.4 million). The fully diluted net income per share was \$0.34 for the year ended December 31, 1999 (1998 – \$0.29) based on a weighted average number of shares outstanding for the year ended December 31, 1999 of 34.3 million (1998 – 24.3 million).

B. LEASE COMMITMENTS

Future minimum lease payments under operating leases for office space, office equipment, and automotive equipment for the next five years and in aggregate are estimated as follows:

| | |
|------|----------|
| 2000 | \$ 2,129 |
| 2001 | 1,966 |
| 2002 | 1,764 |
| 2003 | 1,474 |
| 2004 | 1,346 |
| | \$ 8,679 |

9. INCOME TAXES

The following table reconciles the difference between the actual income tax provision and the tax provision obtained by applying the statutory tax rate to the earnings before income taxes:

| | 1999 | 1998 |
|---|-----------|-----------|
| Earnings before income taxes | \$ 17,144 | \$ 11,176 |
| Statutory corporate income tax rate (%) | 44.62 | 44.62 |
| Computed income tax provision | \$ 7,649 | \$ 4,987 |
| Increase (decrease) in income taxes resulting from: | | |
| Resource allowance | (2,013) | (1,329) |
| Large Corporations Tax | 593 | 433 |
| Other | (43) | 79 |
| Income tax provision | \$ 6,186 | \$ 4,170 |
| Effective income tax rate (%) | 36.08 | 37.31 |

10. CHANGE IN NON-CASH WORKING CAPITAL

| | 1999 | 1998 |
|---|-------------|-------------|
| Accounts receivable | \$ (11,661) | \$ (20,652) |
| GST and income taxes recoverable | (220) | (2,282) |
| Inventory | (896) | (1,654) |
| Other current assets | (2,052) | (152) |
| Accounts payable and accrued liabilities | 12,945 | 16,427 |
| Prepaid revenue | (877) | 54 |
| Other current liabilities | (575) | 671 |
| Other | (279) | (765) |
| | (3,615) | (8,353) |
| Less increase (decrease) in gas plant capital costs payable | 1,400 | (1,710) |
| Net change in non-cash working capital from operations | \$ (5,015) | \$ (6,643) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes non-cash investing activities:

| | 1999 | 1998 |
|--|------------|----------|
| Capital expenditures | | |
| Change in gas plant capital costs payable | \$ (1,400) | \$ 1,710 |
| Capital assets exchanged for shares | 3,100 | — |
| Net non-cash capital expenditures | 1,700 | 1,710 |
| Investments | | |
| Shares received in exchange for capital assets | (3,100) | — |
| Net non-cash investing activities | \$ (1,400) | \$ 1,710 |

The following cash payments have been included in the determination of earnings:

| | 1999 | 1998 |
|-------------------|----------|----------|
| Interest paid | \$ 9,898 | \$ 4,724 |
| Income taxes paid | \$ 2,616 | \$ 2,281 |

11. PENSION PLANS

Substantially all full-time employees of two of the Company's natural gas distribution subsidiaries, AltaGas Utilities Inc. and Bonnyville Gas Limited, are members of one of two defined benefit non-contributory pension plans. These plans are fully funded as at December 31, 1999.

A summary of pension fund assets and accrued pension benefits for the salaried and union plans is as follows:

| | Salaried Plan | | Union Plan | |
|--|---------------|----------|------------|----------|
| | 1999 | 1998 | 1999 | 1998 |
| Market value of pension fund assets | \$ 3,864 | \$ 3,050 | \$ 2,317 | \$ 1,990 |
| Actuarial present value of accrued pension benefit | \$ 3,432 | \$ 2,968 | \$ 1,970 | \$ 1,684 |

12. RELATED PARTY TRANSACTIONS

During 1999 AltaGas purchased capital equipment totaling \$1.8 million (1998 – \$1.1 million) and maintenance services totaling \$920 thousand (1998 – nil) from an equity accounted investee. These transactions have been recorded at their exchange amounts. At December 31, 1999 \$402 thousand was owed to this investee by AltaGas (1998 – \$220 thousand was owed to AltaGas).

13. SEGMENTED INFORMATION

AltaGas is an independent Canadian midstream natural gas company providing producers and end-users with the full range of services necessary to move gas from wellhead to market. With the acquisition of AltaGas Utilities Inc. on June 30, 1998 the Company has two reportable segments:

Gathering, Processing and Services – natural gas gathering and processing, natural gas transmission, natural gas liquids extraction and services including natural gas marketing, gas transportation brokerage and management, third party facility operations and gas portfolio management services.

Natural Gas Distribution – natural gas distribution to end-users, transmission and related services. Prior to June 30, 1998 the Company was not active in natural gas distribution.

| | Gathering, Processing and Services | Natural Gas Distribution | Intersegment Elimination | Total |
|---------------------------------------|--|-----------------------------|-----------------------------|------------|
| December 31, 1999 | | | | |
| Revenue | \$ 195,861 | \$ 65,995 | \$ (4,061) | \$ 257,795 |
| Cost of sales | (134,030) | (38,753) | 4,061 | (168,722) |
| Operating and administrative expenses | (33,167) | (12,613) | – | (45,780) |
| Amortization | (10,064) | (5,478) | – | (15,542) |
| Operating income | \$ 18,600 | \$ 9,151 | \$ – | \$ 27,751 |
| Interest expense | | | | (10,607) |
| Income before income taxes | | | | \$ 17,144 |
| Capital expenditures (net) | \$ 104,841 | \$ 3,852 | | \$ 108,693 |
| Segment assets | \$ 300,450 | \$ 128,712 | | \$ 429,162 |
| December 31, 1998 | | | | |
| Revenue | \$ 94,787 | \$ 27,278 | \$ – | \$ 122,065 |
| Cost of sales | (58,527) | (14,384) | – | (72,911) |
| Operating and administrative expenses | (19,217) | (5,704) | – | (24,921) |
| Amortization | (4,945) | (2,643) | – | (7,588) |
| Operating income | \$ 12,098 | \$ 4,547 | \$ – | \$ 16,645 |
| Interest expense | | | | (5,469) |
| Income before income taxes | | | | \$ 11,176 |
| Capital expenditures (net) | \$ 101,697 | \$ 6,951 | | \$ 108,648 |
| Segment assets | \$ 195,726 | \$ 127,149 | | \$ 322,875 |

FIVE YEAR REVIEW

| (\$ thousands except per share amounts) | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---------|---------|--------|--------|--------|
| OPERATIONS | | | | | |
| Revenues | | | | | |
| Gathering, Processing and Services | 195,861 | 94,787 | 52,300 | 17,459 | 8,015 |
| Natural Gas Distribution | 65,995 | 27,278 | — | — | — |
| Intersegment elimination | (4,061) | — | — | — | — |
| Cost of sales | 168,722 | 72,911 | 28,998 | 6,245 | 1,959 |
| Operating and administrative | 45,780 | 24,921 | 12,905 | 6,920 | 2,830 |
| Amortization | 15,542 | 7,588 | 2,930 | 1,404 | 456 |
| Interest (income) expense | 10,607 | 5,469 | 1,228 | 497 | (4) |
| Income taxes | 6,186 | 4,170 | 2,245 | 1,093 | 1,076 |
| Net income from continuing operations | 10,958 | 7,006 | 3,994 | 1,300 | 1,698 |
| Discontinued operations | — | — | 622 | 449 | (211) |
| Net income | 10,958 | 7,006 | 4,616 | 1,749 | 1,487 |
| Per basic share | | | | | |
| Net income from continuing operations | \$0.42 | \$0.38 | \$0.23 | \$0.12 | \$0.31 |
| Net income | \$0.42 | \$0.38 | \$0.27 | \$0.16 | \$0.27 |
| FUNDS GENERATED FROM OPERATIONS* | | | | | |
| From continuing operations | 28,974 | 15,738 | 7,528 | 8,827 | 2,635 |
| From operations | 28,974 | 15,738 | 8,150 | 9,276 | 2,424 |
| Per basic share | | | | | |
| From continuing operations | \$1.10 | \$0.85 | \$0.44 | \$0.79 | \$0.48 |
| From operations | \$1.10 | \$0.85 | \$0.48 | \$0.83 | \$0.44 |
| ASSETS | | | | | |
| Current assets | 49,294 | 34,465 | 9,743 | 5,968 | 1,584 |
| Capital assets | 369,520 | 276,332 | 68,686 | 45,654 | 9,577 |
| Investments and other assets | 10,348 | 12,078 | 4,698 | 3,358 | 199 |
| Total assets | 429,162 | 322,875 | 83,127 | 54,980 | 11,360 |
| CAPITALIZATION | | | | | |
| Current liabilities | 40,144 | 28,651 | 11,499 | 5,298 | 2,518 |
| Operating loans | 151,881 | 160,294 | 30,181 | 18,866 | — |
| Prepaid revenue | 858 | 458 | 892 | 2,230 | — |
| Deferred income taxes | 6,142 | 4,686 | 4,786 | 2,664 | 588 |
| Shareholders' equity | 230,137 | 128,786 | 35,769 | 25,922 | 8,254 |
| Total liabilities and equity | 429,162 | 322,875 | 83,127 | 54,980 | 11,360 |

*Certain comparative figures have been reclassified to conform to the current financial statement presentation.

QUARTERLY SUMMARY

| <i>(\$ thousands except per share amounts)</i> | Q1 | Q2 | Q3 | Q4 | 1999 |
|--|--------|--------|--------|--------|---------|
| Revenue | 56,480 | 53,588 | 62,647 | 85,080 | 257,795 |
| Operating income | 9,117 | 5,283 | 5,424 | 7,927 | 27,751 |
| Net income | 3,913 | 1,676 | 1,632 | 3,737 | 10,958 |
| Per basic share | 0.21 | 0.08 | 0.07 | 0.10 | 0.42 |
| Funds generated from operations* | 7,656 | 5,889 | 5,966 | 9,463 | 28,974 |
| Per basic share* | 0.41 | 0.30 | 0.21 | 0.25 | 1.10 |

| | Q1 | Q2 | Q3 | Q4 | 1998 |
|----------------------------------|--------|--------|--------|--------|---------|
| Revenue | 17,032 | 20,885 | 33,430 | 50,718 | 122,065 |
| Operating income | 2,212 | 2,380 | 3,907 | 8,146 | 16,645 |
| Net income | 1,173 | 1,363 | 1,118 | 3,352 | 7,006 |
| Per basic share | 0.07 | 0.07 | 0.06 | 0.18 | 0.38 |
| Funds generated from operations* | 2,198 | 2,601 | 3,714 | 7,225 | 15,738 |
| Per basic share* | 0.12 | 0.14 | 0.20 | 0.38 | 0.85 |

*Certain comparative figures have been reclassified to conform to the current financial statement presentation.

CORPORATE INFORMATION

DIRECTORS

J. Richard Bird
*Senior Vice President,
Corporate Planning and Development
Enbridge Inc.
Calgary, Alberta*

John B. Breen
*Managing Partner
MWI & Partners
Toronto, Ontario*

David W. Cornhill
*President and Chief Executive Officer
AltaGas Services Inc.*

Bonnie D. DuPont
*Senior Vice President,
Human Resources and Public Affairs
Enbridge Inc.
Calgary, Alberta*

Denis C. Fonteyne
*Natural Gas Industry Consultant
Calgary, Alberta*

David F. Mackie
*Energy Industry Consultant and Investor
Houston, Texas*

Scott D. Sarjeant
*Executive Vice President
AltaGas Services Inc.
Calgary, Alberta*

Lloyd C. Swift
*President
Square Butte Resources Inc.
Calgary, Alberta*

OFFICERS

David W. Cornhill
President and Chief Executive Officer

Dennis A. Dawson
Vice President, General Counsel and Corporate Secretary

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Vice President Business Development

Denise M. Kitagawa
Vice President Business Integration

Gerry M. Malin
Vice President Gas Services

John W. A. McDonald
Vice President Operations

Kumar D. Mendis
Controller

Patricia M. Newson
Senior Vice President Finance and Chief Financial Officer

Marilyn A. Pfaefflin
Treasurer

Scott D. Sarjeant
Executive Vice President

Fong Wan
Senior Vice President and Chief Operating Officer

HEAD OFFICE

Suite 1700
355 – 4th Avenue S.W.
Calgary, Alberta
Canada T2P 0J1
Tel: (403) 691-7575
Fax: (403) 691-7576
www.altagas.ca

When used in this annual report, the words "anticipate", "expect", "estimate", and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated in the forward looking statements. These risks and uncertainties include operating performance, regulatory and environmental issues, weather and economic conditions, competition and financing availability.

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AltaGas Services Inc., Suite 1700, 355 – 4th Avenue S.W., Calgary, Alberta